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C O N F I D E N T I A L ALMATY 001433

SIPDIS

DEPT FOR EB/ESC (JONES), EUR/SNEC, EUR/CACEN (MUDGE)

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TAGS: [ENRG](#) [CH](#) [KZ](#) [ECONOMIC](#)

SUBJECT: KAZAKHSTAN: CHINESE PIPELINE UPDATE

REF: A. BEIJING 3909

[B](#). ALMATY 58

[C](#). 04 ALMATY 4688

Classified By: DCM Mark Asquino for reasons 1.4 b and d.

[1](#). (C) Summary: Construction of the stalled Atasu-Alashankou oil pipeline is moving forward after a harsh winter and the late delivery of pipe, according to KMG contacts. However, the Kazakhstanis are unhappy with the Chinese over perceived lower netbacks and lack of control -- Beijing has responsibility for both financing and filling the pipeline. The Chinese are still searching for the 10m tons annual needed to fill initial capacity. End Summary.

Atasu-Alashankou construction back on track

[2](#). (C) Construction of the 960 km pipeline is in full swing after an unusually harsh winter and the late delivery of pipe upset plans for a November 2004 start. According to a KazMunaiGas (KMG) engineer who worked on the site one-and-a half months this winter, pipe only started to arrive in February. Serik Burkitbayev, the President of the Kazakhstani Oil and Gas Institute, a main project contractor, blamed the late pipe on a Chinese desire to control the project, including choosing suppliers. The Chinese are financing the 50-50% joint venture, which is the second leg in a cross-Kazakhstan pipeline. Only the third and final leg, between Kenkiyak and Atasu, will link oil-rich Western Kazakhstan with China.

3 (C) The KMG engineer was confident, however, that the pipeline - at least pipes in place welded under the ground - would be ready for the promised delivery date of December [2006](#). The Chinese director of the first leg of the pipeline (Kenkiyak-Atyrau), Dzhan Chengwu, did not share the same degree of certainty as his Kazakhstani colleague but thought completion was possible.

...Though filling it harder

[4](#). (C) Burkitbayev and the KMG engineer differed on the ease of finding shippers. The engineer sheepishly admitted that it could take six months to fill the pipeline; the norm is usually one-and-a half for a project of this size. Burkitbayev, however, said that the pipeline would be easily filled in a fifty-fifty split between Kazakhstani and Russian producers. Negotiations, he added, were already under way with Rosneft to ship 5 million tons of former Yukos crude south. The rest would come from the Atasu hub of the second stage, the Turgai basin.

[5](#). (C) PetroKazakhstan, the main Turgai basin producer, is leery of a Chinese monopsony. Marketing Director Robert Goldsmith said the company is still exploring options, but needs at least two buyers. (Comment: The Atasu-Alashankou second leg needs Russian oil since the Turgai basin produces a total of 12 m tons a year. Even if all that crude were to be sent to China - unlikely since some is refined in Kazakhstan - it would barely fill the initial capacity of 10 m tons a year. Russian crude becomes less of a factor once the third leg is completed and Western Kazakhstani product - such as Tengiz or Kashagan - can be shipped. End Comment.)

Kazakh-Chinese Honeymoon Over?

[6](#). (C) Burkitbayev griped that it was "difficult" to work with the Chinese. He added that, "the government is not happy, the oil companies are not happy." He hinted that the GOK lost a large degree of control when it agreed to let the Chinese finance and fill the pipeline. He also said that other export routes - CPC, BTC, and even the Russian pipeline system - might be better options financially: "It (the Chinese pipeline) is not a good deal for us."

[7](#). (C) Comment: Despite grumbling and mutual suspicions, the

Chinese and the Kazakhstanis will expand energy links.
Geography - a growing producer next to a hungry consumer -

should more than match distrust and keep the relationship from derailing. Moscow, however, may meddle if too much West Siberian crude goes south. According to an oil trader here, only 36% of West Siberian crude reaches world markets, the rest is refined locally at a deep discount. Every barrel shipped to China via Kazakhstan cuts into vested Russian interests. Transneft President Semyon Vainshtok's April 12 comments to the press that Russia would not deliver oil to the Kazakhstani-Chinese pipeline appear to be the first indication of push-back from Moscow. End Comment.

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